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WEITERE INFORMATIONEN OK

An unending variety of topics

Friday, July 03, 2015

The Greek financial mess; and some ways Bitcoin might help

Many years of government debt buildup in Greece has ultimately resulted, in the last few days, in a political and financial maelstrom. The political maelstrom includes demonstrations in the run up to a referendum on obscure debt-restructuring provisions to be held this Sunday (July 5th). This article focuses on financial problems and some potential practical steps that can be taken to mitigate them. The imposition of capital controls is a disaster for a modern trade-driven economy, a catastrophe which however digital technology, and in particular the digital currency bitcoin (which given the Greek environment usually must involve direct use of the Bitcoin blockchain), has the potential to mitigate. This article will explore some of the severe practical problems that capital controls are causing Greek individuals and businesses, and suggest some potential bitcoin solutions, many of which could also be applied to other countries with some similar financial problems and controls such as Argentina and Venezuela. These aren't solutions that can be applied in time to help with the current 6 days of capital controls, but could substantially help some Greeks and some aspects of the Greek economy if some version of these controls is continued for months or years.

At root the Greek financial problem is that the Greek government has spent more, compared to the GDP generated by its economy, than the vast majority of other governments. It has borrowed copious sums to do so, falling ever deeper into debt. Here is its payment schedule:

About Me

Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

"Like most blogs worth my attention, this blog is updated only infrequently. That is because the authors of blogs worth my attention only post when they have something to say that is true, relevant and not already known by their audience. Most of the human race does not have the skill to know when an idea has these three properties. The skill is particularly rare in the fields of politics and economics, which is why this blog is such a rare and valuable thing." -- Richard Hollerith

View my complete profile

	Greek Debt Payments Due:
2016:	€7.227 Billion
2017:	€9.648 Billion
2018:	€4.600 Billion
2019:	€13.628 Billion
2020:	€5.080 Billion
2021:	€5.154 Billion
2022:	€6.907 Billion
2023:	€9.208 Billion
2024:	€8.964 Billion
2025:	€7.419 Billion
2026:	€8.059 Billion
2027:	€8.062 Billion
2028:	€7.469 Billion
2029:	€6.893 Billion
2030:	€7.220 Billion
2031:	€6.723 Billion
2032:	€9.523 Billion
2033:	€6.780 Billion
2034:	€9.520 Billion
2035:	€9.247 Billion
2036:	€9.316 Billion
2037:	€12.813 Billion
2038:	€12.516 Billion
2039:	€13.401 Billion
2040:	€6.369 Billion
2041:	€7.292 Billion
2042:	€7.682 Billion
2043:	€10.100 Billion
2044:	€6.230 Billion
2045:	€8.130 Billion
2046:	€4.830 Billion
2047:	€5.900 Billion
2048:	€2.500 Billion
2050:	€0.500 Billion
2053:	€2.000 Billion
2054:	€6.300 Billion
2057:	€1.130 Billion

And you thought your student loan debt was bad

The only place the Greek government has left to go for money to fund its ongoing expenditures and pay these debts is Greek banks. Fearing capital controls and "haircuts" (government confiscation of certain fractions of bank deposits), many Greeks in recent months have, quite rationally, started withdrawing money out of their banks and sending it overseas. More trusting Greeks kept their savings in their banks, with the result that, with the imposition of capital controls last Monday, they have been locked out of their savings, and plans for "haircuts" of 30% or more have been reported (If somebody lopped off 30% of your head, you'd have more than a haircut).

When capital controls were first rumored and then announced on Sunday, vast lines formed at ATMs as Greeks rushed to rescue what little of their life savings that they could:

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ATM line, Thessaloniki

ATM line, Larissa City

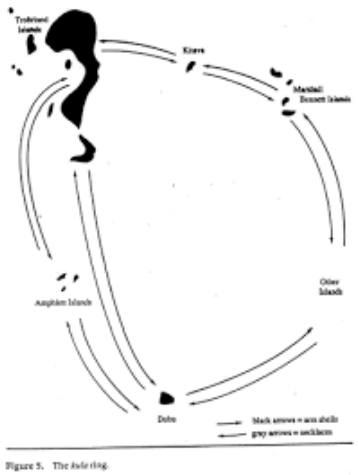
On Tuesday, the Greek government defaulted on its scheduled debt payment to the International Monetary Fund (IMF).

Under capital controls, ATM withdrawals from Greek bank accounts are now limited to 60 euros a day. Debit cards can still be used for payments within the country, but the money simply gets transferred from one frozen bank account to another. As a result many businesses no longer accept debit cards, and many more are demanding a substantial premium price (in at least one business, double) for debit cards (transferred bank balances) versus hard cash. There is a growing shortage of such cash; as a result some stores are paying their suppliers in private "scrip", which can be used by the supplier's workers to purchase goods from the issuing store. (more on this below).

Use of credit and debit cards to pay out of the country is banned and effectively blocked, resulting in a near-complete freeze-out of Greeks from Internet commerce. This restriction, along with the controls resulting in Greeks being excluded from the pan-European

money settlement system, means that Greek businesses can't pay for imports. Many shipments into the country have been halted as a result. (The government plan is to create a whitelist of politically approved cases in which such payments for imports will be unblocked).

A crucial feature of store-issued scrip is that it literally circulates through a complete closed cycle: store --> supplier --> workers --> store. Such specific cycles are a pattern that is commonly found when currencies are primitive or newly emerging, and every Bitcoin marketer and evangelist should be familiar with them.



The kula ring, two specific cycles (counter-circulating cycles of shell money) allowing exchange of seasonal goods in the precolonial South Pacific

It doesn't help much to sell bitcoin to isolated individuals: as a mere store of value its volatility is much greater than most existing currencies; as an investment it only makes sense as a tiny high-risk fraction of one's portfolio. Bitcoin does have some political-affinity and status value in developed countries; by contrast in many developing countries and in countries under financial crisis such as Greece, there are urgent needs bitcoin potentially can address. In terms of these needs Bitcoin is mainly useful as a way to send money across borders for investment in more stable assets overseas, and to substitute for cash or other substitute currencies in a money-starved environment.

To have value as a medium of exchange, bitcoin must be taken up by a community of people who already frequently trade with each other, and who have a strong need to use it in these trades. It is especially important to market to the links in the cycle that have the strongest negotiating leverage with the others (in the case of Greek the Greek store scrip cycle, the store and its larger suppliers). The link in the cycle with the greatest incentives to switch to bitcoin here are likely the store's suppliers, because they don't fully trust the store, nor the underlying currency, euro or post-euro, that is the "O" in an IOU, but are participating in the scrip because, sans bitcoin, they have no other choice.

In bitcoin specific cycles create other cost savings. Almost everywhere they economize on the increasingly high KYC/AML (know your customer/anti-money-laundering) costs of going through a fiat-bitcoin exchange. What's more, in a capital controls environment like Greece specific cycles avoid the capital controls that would be imposed on a Greek-based fiat-bitcoin exchange, and avoid the need

nearly all Greek customers using out-of-country exchanges would have to futilely try to tap into their frozen bank accounts in order to purchase bitcoin. Bitcoin will not, contrary to some feverish news reporting, help Greeks get money out of their frozen bank accounts.

But bitcoin does have great potential to help in less obvious ways: for one thing, as a superior (not vulnerable to trust in an issuing store, and in any currency underlying an IOU) substitute for the emerging store scrips. For another, it could help greatly with the severe cross-border commerce issues that are emerging. Exporters, including freelancers working over the Internet, can bring bitcoin into the country, thereby avoiding earning wages that get deposited to frozen bank accounts (per Greek lore, be wary of a cave with many tracks coming in but few coming out). Importers can pay for goods with bitcoin while other electronic payment channels (European money settlements, Paypal, and credit & debit cards when paying foreign businesses, etc.) remain frozen. Again specific cycles must be set up: isolated marketing to just exporters or importers will be far less effective than organizing existing supply chains that involve both.

There are likely many other, mostly highly non-obvious, niches in which bitcoin, and other cryptocurrencies, and smart contract platforms could play a quite valuable role in capital-controlled and other financially handicapped countries.

Bitcoin is not easy to learn, either conceptually or in setting up businesses and individuals with the software (and preferably also the secure hardware) to accept it. This is especially the case in a capital controls climate where the traditional bitcoin exchanges and retail payment companies, with their consumer-friendly front ends, as they normally operate in developed countries, likely can't effectively operate. To take advantage of bitcoin many Greeks will have to use the Bitcoin blockchain directly. So it's too late for bitcoin to help much with the current 6 days of bank closure, but once the learning curves have been surmounted, the participants in specific cycles educated, bitcoin has great potential to address likely many ongoing problems with capital control, in Greece as long as they continue in various forms, and in many other parts of the world where such financial restrictions designed for a pre-digital era have been imposed.

[Update: various minor edits: the first version was rather rough, sorry :-)]

Posted by Nick Szabo at 7:53 PM

23 comments:

Anonymous said...

Great post, Nick. Do you have any data on existing closed trade cycles using Bitcoin? Do such mythical creatures exist in any economies?

By the way, I believe there's a typo in here that required a second reading to resolve: "Bitcoin does have some political-affinity and status value in developed countries; by contrast in many developed countries and in countries under financial crisis such as Greece, there are urgent needs bitcoin potentially can address."

Should the second instance of "developed" be "developing" here?

2:13 AM

Anonymous said...

So many mistakes in punctuation/spelling I now realize you aren't actually Satoshi!

2:34 AM

Aleks Jakulin said...

This connects your own research very nicely with Bernard Lietaer's ecosystem research. The fundamental point of difference is that you rely on a single "currency" -- whereas Lietaer argues for multiple currencies, an ecosystem of currencies. While the theoretical articles are very technical http://capitalinstitute.org/wp-content/uploads/2014/12/Quantifying-Ecosystems-Sustainability-Ulan-Eco-Complexity-Publ-Mar-2009.pdf - it might be easier to just listen to a presentation http://www.lietaer.com/2015/02/bernard-lietaer-why-we-need-a-monetary-ecosystem-inria-2014/.

2:35 AM

Anonymous said...

Great article Nick.

You touch on Bitcoin's unique roll in offering for the first time in recent history the private citizen or business, the ability to control one of the corners on the 'Trillemma of International Finance'. This control would of course be contrary to the will of a nation's central banks considering the sole purpose that they exsist. This is perhaps one of the most overlooked & powerful features in Bitcoin's design. With a nation's gate left open on capital, centralists will initially be left with only 1 of 2 options out of the 3, either:

1) Offer a fixed exchange rate with Bitcoin.

or

2) Offer a floating exchange rate with Bitcoin.

I say initially because I believe 'Gresham's Law' will ensure this is only a transitionary arrangement before Bitcoin takes over & locks the Trillema down to a 'de facto' fixed exchange rate (a bitcoin for a bitcoin), & of course the free flow of capital.

A new gold standard by any other definition, just this time the 'golds' is teleportable & can be audited at any time by any regular Joe.

Regards, Emanance

4:28 AM

Support Me said...

Educating periphery economies within the Euro zone would prepare many businesses from being locked out of e-commerce.

Consumers and SME businesses of these economies, Spain and Portugal in particular, should begin looking at a plan B sooner rather than later.

Capital controls in Cyprus was the first warning. Greece is the second warning.

5:48 AM

CurmudgeonlyTroll said...

The point of using the store scrip is to avoid using scarce hard currency. A feature of Bitcoin is a hard currency, with scarcity strongly enforced. To the extent the store has to give up hard currency to start using Bitcoin, that completely defeats the purpose of using

Bitcoin.

One could set up an alternative currency and blockchain for this purpose. However, for the principal risk, that the store devalues or goes bust, blockchain doesn't have any advantage over paper scrip.

Could help the store deal with potential counterfeiting, though.

6:13 AM

Will M said...

"... as an investment it only makes sense as a tiny high-risk fraction of one's portfolio."

I disagree. Bitcoin is volatile, but how many mid-cap stocks do you know of that have the same level of media exposure as bitcoin? I would argue that bitcoin volatility is a byproduct of its tiny size vs its massive hype.

Another point, most stocks risk going to zero not only if their customers leave them, but if they get into regulatory or legal issues. On customers leaving Bitcoin, it is shielded because of a network effect, while various alt coin and 2nd layer schemes may try, there is no serious competitors who can do what it does with its properties today. On regulatory or legal issues... this is the one most missed by garden variety investment analysts, while services using bitcoin may have the legal and regulatory risks, bitcoin is designed to not have these risks. We spend a tremendous amount of time keeping it this way too. Bottom line, it's been safe since August 2010, and orders of magnitude more attention are paid to bitcoin's security now versus back then. I think it's likely to long outlive many reading this, barring any extensions of the human lifespan in the near future.

I think bitcoin makes sense not as a high-risk investment, but as an uncorrelated asset class that can be used to reduce the risk of denominating too much of one's portfolio in fiat denominated assets. I look at it as an alternate form of gold and silver that is uncorrelated to precious metals as well. Physical bullion may have less risk, but bitcoin is certainly lower risk than ETFs or other vehicles that do not give investors direct custody of assets. I think it absolutely has a place next to gold and silver; these types of assets can serve as excellent fire insurance when they comprise 3-5% of everyones' portfolio.

7:55 AM

gruvr said...

What information do we have on bitcoin 'ambassadors' who may be working in Greece right now to set up the kind of btc-as-scrip cycles discussed here? Maybe the bitcoin community could set up some kind of online resource to help greeks, perhaps even providing our own loans - or donations - to provide initial liquidity for B2B cycles to get started? Perhaps some large bitcoin angel interested in emerging economies - Draper comes to mind - could set up such a resource, help rescue Greek B2B, and benefit the entire bitcoin ecosystem in the process?

so far, there's one bitcoin ATM, installed about a week ago, at a book store. It's getting zero interest, according to the store owner.

8:34 AM

nick said...

Anonymous #1: yes that should be "by contrast in many _developing_ countries", thanks.

9:05 AM

PicNiK said...

Private currencies already appearing in Greece: http://www.telegraph.co.uk/finance/economics/11716318/Greeces-Yanis-Varoufakis-prepares-for-economic-siege-as-companies-issue-private-currencies.html

9:45 AM

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9:45 AM

Anonymous said...

"In bitcoin specific cycles create other cost savings" . . . ?

10:29 AM

Anonymous said...

bitcoin could do a lot for them but the country should go digital with bitdrachma or drachmae they could use it for wages and all there expenses.countries in south america should do the same but where can you use bitcoin overthere nowhere only a few people are using it maybe they should make there own cryptocurrency it,s better then print paper

2:35 PM

Anonymous said...

The folks at I/O Digital are doing an amazing job of tackling some of nicks concerns on bitcoin. The I/O Coin team is working and almost ready to release a decentralized aliases system on their blockchain with instant transfers and less than 30 seconds to get a 1st confirmation. People all over the world will find it very easy to send and receive within a fully decentralized aliases blockchain. People will also have the ability to store valuable documents and notes. They are also working on gateways as point of entry to there blockchain for fiat transfers. Check out their project www.iodigital.io and www.iocoin.io

5:11 PM

Manfred Karrer said...

"Many years of government debt buildup..." I know the article was not meant to explain the reasons for the greek tragedy but I think the introducing sentences are not representing adequately the complexity of what happened during the period Greece joined the EU and the problems caused by the strategies applied to this country (which are pretty similar to what happened to other countries in the world when the IMF reached its destructive "helping" hands).

That article gives quite good overview:

https://truthandsatire.wordpress.com/2015/07/03/greece-the-one-biggest-lie-you-are-being-told-by-the-media/
In Short: Greece did not fail on its own. It was made to fail.

5:43 AM

Zooko Wilcox-O'Hearn said...

So you say that it is too late for Greeks to adopt Bitcoin to protect themselves during the current crisis. If so, then this might be exactly the right time for Spaniards to adopt Bitcoin to protect *themselves*. Coincidentally, I'm going to be in Madrid next week! What companies, organizations, or people are already active there that I could meet?

11:42 PM

Ian Board said...

Bitcoin was one of the first things I thought of, but aren't there scalability issues?
I was thinking of how many transactions/sec can be handled with the current design, plus the amount of time and disk space necessary to be a full node (granted not all will need this) is getting ridiculous.

11:30 AM

Anonymous said...

Good afternoon Nick

Do you think if Greece made the bitcoin into a reserve currency & Drachma.They would be safe home and dry dumping the EU and the Euro behind them?

6:26 AM

Anonymous said...

You might want to call conspiracy! But this article like 99% of the MSM has been mislead into believing how this crisis happened. Yes Greece and many socialist governments overspent. It that is not how the debt was accumulated. It's was a bank job, banks pushed onto governments deriveratives that blew up, then the Greek tax payers bailed them out, now the very same banks are asking for their money back, it's disgusting right?

http://www.globalresearch.ca/greece-the-one-biggest-lie-you-are-being-told-by-the-media/5460508

8:18 PM

Jose Perez said...

Hello Nick, I thought you might find this critique very interesting. Powerful arguments from economics and history, and what governments could do to defeat Bitcoin: http://moraluniversal.com/en/why-bitcoin-cannot-win/

11:17 AM

Jose Perez said...

Hello Nick, I thought you might find this critique very interesting. Powerful arguments from economics and history, and what governments could do to defeat Bitcoin: http://moraluniversal.com/en/why-bitcoin-cannot-win/

It would be great to hear your thoughts.

11:22 AM

Jose Perez said...

Hello Nick, I thought you would find this critique very interesting: http://moraluniversal.com/en/why-bitcoin-cannot-win/

Powerful arguments from economics and history - citing your work - and what governments could do to defeat Bitcoin... Would be great to hear your thoughts.

11:24 AM

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